

Aligning Fiscal and Trade Policies for Improved Nutrition Outcomes in Sri Lanka

Key Message

Food affordability, rather than lack of awareness, is the primary barrier to healthy diets in Sri Lanka. Fiscal and trade policies play a decisive role in shaping food prices, consumption patterns and nutrition outcomes, while carefully targeted and nutrition-sensitive reforms can improve household welfare and diet quality without undermining fiscal stability or domestic production.

Why This Matters

Sri Lanka faces a dual burden of malnutrition, where undernutrition and micronutrient deficiencies coexist with rising overweight and diet-related non-communicable diseases (NDCs). This challenge has intensified due to:

- High dependence on imported food commodities (wheat, dairy, edible oils etc.)
- Price volatility driven by global shocks, currency depreciation and climate impacts
- Fiscal tightening following the economic crisis including government tax increases
- Uneven effectiveness of existing food subsidies and price controls

As a lower-middle-income, import-dependent country, Sri Lanka must balance food affordability, fiscal sustainability and domestic production incentives. Fiscal and trade policies are central to this balance.

Evidence Base and Analytical Approach

This study employed a mixed-methods approach combining GTAP-based Computable General Equilibrium (CGE) simulations with community-level qualitative research conducted among diverse demographic groups across Sri Lanka including adult women and men, adolescent girls and boys, and pregnant and lactating mothers in representing estate, rural and urban contexts.

What the Evidence Shows

1. Fiscal and trade policies directly affect diet quality

- Tariff removal lowers food prices and improves consumer welfare but increases import dependence and pressures domestic producers.
- Value Added Tax (VAT) removal on food significantly improves affordability but leads to GDP contraction and overall welfare losses while posing fiscal risks.
- Combined tariff and VAT removal delivers the largest short-term welfare gains but weakens domestic food production.
- Maximum Retail Prices (MRPs) provide short-term consumer relief but distort markets and risk supply shortages.

→ **No single instrument delivers affordability, fiscal stability and production resilience simultaneously.**

2. Affordability is the binding constraint

- Households consistently adjust diets in response to price increases, shifting toward cheaper, calorie-dense foods.

- Nutrient-rich foods (pulses, dairy, fruits, vegetables) are the first to be reduced during economic stress.
- Knowledge of balanced diets exists but is overridden by financial constraints.
- Nutrition labelling and school-based interventions are perceived as insufficient without price relief.

→ **Economic access matters more than information alone.**

3. Policy Impacts Are Unequal

- Low-income and vulnerable households bear a disproportionate burden of food price increases.
- Seasonal production cycles (*Maha/Yala*) interact poorly with ad hoc import controls in worsening volatility.
- Climate shocks and weak safety nets amplify vulnerability, especially in rural and estate sectors.

→ **Fiscal and trade policies are not nutrition-neutral.**

Priority Policy Actions

Sri Lanka's food and nutrition strategy must move beyond isolated price interventions toward an integrated, nutrition-sensitive policy framework.

Short-term (affordability and protection)

1. Apply targeted VAT and tariff exemptions for essential, nutrient-dense foods rather than blanket removals.
2. Use time-bound, seasonally adjusted trade measures aligned with domestic harvest cycles.
3. Strengthen nutrition-sensitive social protection to cushion vulnerable households from price shocks.

Medium-term (resilience and production)

4. Invest in climate-smart domestic food production, especially pulses, fruits, vegetables and dairy.
5. Reduce post-harvest losses and improve storage and distribution to stabilize prices.
6. Improve predictability and transparency in trade policy to encourage private-sector investment.

Long-term (system integration)

7. Develop a coherent national food policy framework aligning fiscal, trade, agriculture and nutrition objectives.
8. Shift from universal price controls to targeted, equity-focused fiscal instruments.
9. Institutionalize the use of economic modelling combined with community evidence in policy design.

Why This Approach Works

- Balances consumer welfare and fiscal space
- Reduces exposure to global price shocks
- Protects domestic producers while improving diet quality
- Advances Sri Lanka's commitments to SDGs on nutrition, health and inequality

- Aligns national priorities with SACIN's regional nutrition-sensitive policy agenda

Conclusion

Sri Lanka's nutrition challenge is fundamentally economic. Fiscal and trade policies when designed with nutrition, equity and resilience in mind can become powerful tools for transforming food systems. Integrating lived experiences with rigorous economic analysis is essential to ensure that policy reforms are both effective and socially equitable.